

EDWARD J. MARKEY

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ENERGY AND COMMERCE COMMITTEE

RANKING MEMBER  
SUBCOMMITTEE ON  
TELECOMMUNICATIONS AND  
THE INTERNET

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June 9, 2003

The Honorable Cliff Stearns  
Chairman  
Subcommittee on Commerce,  
Trade and Consumer Protection  
2125 Rayburn House Office Building  
Washington, D.C. 20515

Dear Mr. Chairman:

I am writing to request that the Subcommittee hold a hearing to investigate accounting practices at Freddie Mac.

As you know, pursuant to Rules X and XI of the House of Representatives, the Energy and Commerce Committee's Subcommittee on Commerce, Trade, and Consumer Protection has legislative and oversight jurisdiction over accounting standards developed by the Financial Accounting Standards Board (FASB). As part of that responsibility, the Subcommittee has an obligation to oversee the effectiveness of generally accepted accounting principles developed by the FASB and the nature and adequacy of public companies' compliance with such standards.

As you know, today's press reports indicate that Freddie Mac's Board has fired Mr. David Glenn, the companies' Chief Operating Officer, and forced Mr. Leland Brendsel, its Chairman and Chief Executive, and Mr. Vaughn Clarke, its Chief Operating Officer, to resign in the aftermath of internal and external investigations into the companies' accounting practices.

Freddie Mac has indicated that it will have to restate its earnings for the last two, and possibly three years. It indicated that it has dismissed Mr. Glenn "because of serious questions as to the timeliness and completeness of his cooperation and candor" with attorneys engaged by the companies Board of Directors to review accounting problems.

The Office of Federal Housing Enterprise Oversight (OFHEO), which oversees Freddie Mac, has reported that it was investigating the company "as a result of management misjudgments that led to a misapplication of GAAP principles and disclosures of employee misconduct, specifically, altering and failing to supply documents relevant to the restatement process." OFHEO's Director has stated that "I have become increasingly concerned about evidence that has come to light of weakness in controls and personnel expertise in accounting areas and the disclosure of misconduct

on the part of Freddie Mac employees." He further stated that "The removal of members of the management team only goes a part of the way toward correcting serious problems - concerns surrounding management practices and controls remain. I believe additional actions must be taken by the board to address these matters."

These revelations are deeply disturbing, and raise serious questions about exactly what is going on inside of this company, which plays such an important role in the housing finance market. As a result, I believe that the Subcommittee should immediately commence an investigation into this matter and hold hearings to examine the facts and circumstances relating to Freddie Mac's compliance with FASB accounting standards relating to derivative financial instruments.

As you know, I recently joined with Representative Christopher Shays (R-CT) to introduce H.R. 2022, the "Leave No Securities Behind Act." This legislation would repeal Freddie Mac and Fannie Mae's current exemption from full compliance with the disclosure and investor protection provisions of the federal securities laws. While Freddie Mac (like Fannie Mae) have voluntarily registered their stock with the SEC, they continue to be exempt from having to register their mortgage-backed securities with the Commission. Since the accounting problems that have apparently occurred appear to relate to the companies use of financial derivatives, they could materially effect the prices of their mortgage-backed securities. I would therefore urge that the Subcommittee also examine the issue of whether registration of such securities might be needed to ensure the companies' full compliance with FASB accounting standards, and its future executives recognition of their public responsibilities to ensure such compliance.

Thank you for your consideration of this request.

Sincerely,

A handwritten signature in dark ink, reading "Edward J. Markey". The signature is fluid and cursive, with the first name "Edward" and last name "Markey" clearly legible.

Edward J. Markey